

## UK economy returns to growth after volatile fourth quarter

A rebound in retail activity helped the UK economy bounce back in January, and the combination of falling gas prices and the anticipation of rate cuts suggests we should see an improvement in growth through 2024



We think we should see a return towards quarterly growth prints in the 0.3% area later this year.

The UK economy bounced back in January following a volatile but overall weak fourth quarter. Monthly GDP increased by 0.2%, some of which is thanks to a strong rebound in retail activity after an unexpectedly weak Christmas trading period.

It's worth emphasising that these GDP figures have been all over the place over the past few months, not least in manufacturing where a large drop in October's production numbers gave way to a swift recovery in November and December. Manufacturing was flat in the first month of this year.

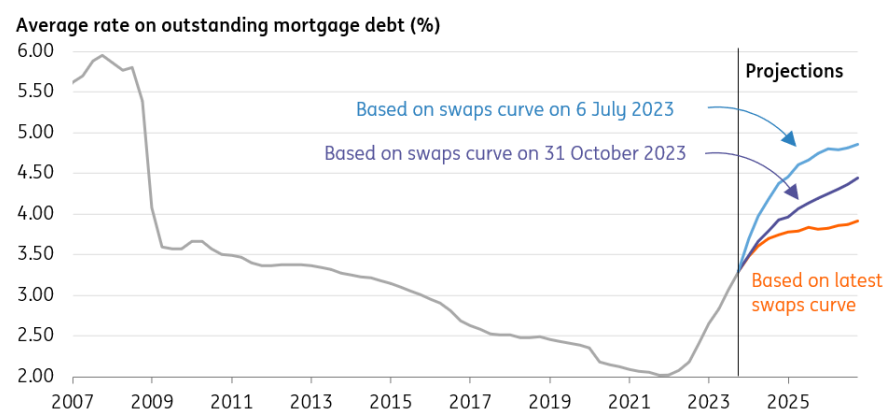
We therefore shouldn't overstate one month's worth of GDP figures, but we think it is consistent with the gradual recovery in activity that we expect over the coming months. We think the decline

in overall fourth quarter GDP, which marked the second consecutive quarter of negative growth and therefore a technical recession, is unlikely to be repeated in the first quarter of 2024.

There are green shoots in some of the major business surveys, including the services PMI, which at 53.8, is not only in expansionary territory but also sits some way above the equivalent eurozone series. We also expect a better year for the UK consumer with rate cuts on the horizon and given the recent fall in wholesale gas prices.

On the former, we estimate that two-thirds of the passthrough from rate hikes to homeowners via mortgage refinancings has already happened, and this will rise to around 80% by the summer. The average rate being paid on outstanding mortgages (not the rate on new lending) has risen from 2% to 3.3% as of the fourth quarter. Based on the latest market pricing for the Bank of England, we think that will rise to 3.7% by year-end.

## Most of the passthrough from rate hikes to mortgage-holders has already happened



Projections are based on the split of mortgage lending by initial fixation period, and assume an even proportion of borrowers refinance each quarter (for example, one eighth of those with two-years fixes). We have also assumed that a recent bias towards shorter fixation periods for those refinancing persists such that the share of those with two-year fixes gradually climbs.

The fall in gas prices is set to usher in a 12% fall in household energy bills at the start of April and potentially another sizable fall at the start of July. That will drag headline inflation below 2% by May at the latest, where it's likely to stay for much of this year. With wage growth still at 6% and set to fall only gradually into the summer, real wage growth should be decent and will help support spending later this year. At the margin, recent tax cuts will also add to this story.

We shouldn't get ahead of ourselves, but we think we should see a return towards quarterly growth prints in the 0.3% area later this year.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).